As ‘Continuing Care’ Grows, So Do the Payment Options

By Christine Larson

When Robert and Jean LaCamera decided that it was time to move to a retirement community, they knew exactly where they wanted to go. Mr. LaCamera’s mother had spent her last years at Whitney Center in Hamden, Conn., a continuing care retirement community offering independent living, assisted-living services and a nursing home, all on one campus. “It was an excellent experience for her,” Mrs. LaCamera said.

When the LaCameras joined the community in 2006, they were offered a payment choice that hadn’t existed when Mr. LaCamera’s mother joined in 1979. The couple could either pay an entrance fee of roughly $230,000, which would become nonrefundable after a few years, or a much larger fee, topping $330,000, part of which would be refunded to the couple if they moved or to their estate if they died. They also pay a monthly fee of roughly $4,100.

Ultimately, the couple chose the smaller entrance fee. “It made the most sense,” Mrs. LaCamera, 81, said, because the couple needed their remaining assets to support them in retirement.’ Traditionally, continuing care retirement communities, which offer the prospect of lifetime care on a single campus, have charged hefty entrance fees as well as monthly fees; in some cases, the monthly fees do not increase if residents move to a higher level of care.

But the number and variety of payment plans have expanded rapidly, along with the number of new facilities; some 20 to 30 new communities have been built each year for the past decade, and more than 2,200 or now in operation.

Many communities, like Whitney Center, have added refundable entry fees. Others are charging lower upfront and monthly fees but covering little or no health care. And a few require residents to buy their their residences. While this growing array of payment options has in some cases made these communities more affordable, it can also create potential for misunderstanding.

“Gone are the days when I could explain everything about C.C.R.C.’s in an hour and a half,” said Maggie Stark, director of admissions and marketing at Kendal at Oberlin, a continuing care retirement community in Ohio. “Now it takes many, many visits.”

Like most of Kendal’s nine other retirement communities, Kendal at Oberlin now offers two different Type A contracts and one Type B contract, with three levels of refund ability for each.

The basic concept of C.C.R.C.’s is quite simple: the communities invest the large entrance fees and part of the monthly fees to subsidize assisted living and nursing home care.

While the idea is simple, the variations are anything but. Most of the contacts fall into three categories. Type A’s, or “life care,” contracts, promise to care for residents for the rest of their lives without significantly increasing their monthly fees. Type B, or “modified,” contracts, provide a certain number of free days in assisted living or nursing homes, then charge for additional care. With Type C, or “fee for service” contracts, residents pay more when they need more care.

“For people who are really worried about outliving their money, Type A is the best choice,” said Margery Schiller, a financial planner in Brandon, Fla., who helped the

LaCameras evaluate their retirement options. “It provides the most peace of mind because everything is included in the monthly fee.”

Life care communities tend to be more expensive than other models because they cover more. On the other hand, they save residents money by offsetting the need for long-term care insurance. For most life care residents, “if you have long-term care insurance, keep it in place for a year or two and make sure you’re settled into the community and staying put,” Ms. Schiller said. “If you find no problems and are happy, then cancel it.”

As recently as 1998, type A communities were by far the most common type, with 42 percent of the market, according to Zeigler Senior Living Finance, which underwrites such communities. But that has changed with the proliferation of payment models: in 2005, Type A communities accounted for just 29 percent of the total. During the same period, Type B contracts grew to 19 percent, from 16 percent, and Type C contracts, combined with an emerging fee-for-service contract called the “rental model,” grew to 47 percent from 36 percent.

Fee-for-service communities are gaining popularity because their entrance fees are typically fully or partially refundable, and monthly fees tend to be lower because they do not include health care. Some residents prefer this pay-as-you-go model.

“You don’t know ahead of time if you’re going to need that kind of care or not,” said Vera Hemingway, 83, a resident of Highland Springs in Dallas, one of 19 developments managed by Erickson Retirement Communities. Mrs. Hemingway and her husband, Richard, 79, moved to Highland Springs when it opened last fall, drawn mainly by its many on-site conveniences, from a beauty parlor to a medical clinic.

The fully refundable entrance fee of $218,000 was appealing, too. “We’d like our children to receive that money back when we die,” Mrs. Hemingway said. The couple currently pays roughly $2,400 a month. If they need more care, they will pay out of pocket. “When that time comes, we’ll hope for the best,” she said.

As a hedge against future care costs, residents in Type B and C communities sometimes hang on to their long-term care insurance; some communities offer discounts for insured residents. And some life care communities are lowering their costs for residents with long-term care insurance. Depending on their policy, a couple with long term care insurance could pay just $145,400 to join Kendal at Oberlin, rather than $202,000 without the policy.

In the past, most entrance fees at the communities were what is known as “declining refundable.” Such fees are partially refundable when residents first move in, but become nonrefundable after a certain number of months. Although partially and fully refundable entrance fees are spreading rapidly, some residents still prefer to pay the lower, declining refundable fee and invest their remaining assets on their own.

“I would never consider a refundable entrance fee,” said Ken Roose, 87, a retired economist and longtime resident of Kendal at Oberlin. People who choose that option, he said, are basically asking a community to invest more of their money for them, “and, to me that does not make sense.”

But he understands why Kendal now offers a refundable option: some potential residents, he said, may not come in the door without it.

Retirees who prefer to manage their own assets are sometimes drawn to communities like one in North Carolina, the Cedars of Chapel Hill, where residents buy their homes. Nellie Snook, 85 chose the Cedars in 2004 primarily because she liked its vibrant Chapel Hill location, as well as the security of on-campus care. But the idea of owning her home also appealed to her and her son, Garry, who helped her evaluate communities. "We didn't do this as an investment," Mr. Snook said, "But ownership was one of the attractions."

At the Cedars, newly built condos sell for $535,000 to $847,000. Those built in 2004, when the community opened, now sell for as much as 40 percent above their original price, according to Bob Woodruff, the president of the Cedars.

The total cost of a home includes an initial membership fee of 10 percent of the home's value, and monthly fees range from $1,900 to $4,200 for a single person.

The Cedars offers a Type B contract promising 90 days of free nursing home care, then charging $154 a day for a private room (compared with $254 for nonresidents).

One useful resource for cutting through confusion is the Complete Directory of Continuing Care Retirement Communities, which lists 2006 data about more than 900 C.C.R.C's; electronic copies are available for $10 at www.ccrdata.org. Another, of course, is legal counsel; many communities recommend that residents have a lawyer review their contract and the community's disclosure document, which contain information on the community's financing.

"You want to understand what you are actually buying for your monthly fee," said Steve Maag, director of continuing care and assisted living at the American Association of Homes and Services for the Aging, an industry group. "Some have extensive housekeeping and laundry; some have none. Some include one meal a day; some have three."

Residents should also ask what will happen if they need more care: Will they incur additional fees? Who decides if they need to move?

In 2006, a resident sued Channing House, a community in Palo Alto, Calif., saying she was required to move to assisted living against her will. The lawsuit is pending. A Channing House spokesman said the community was following the terms of its contract, as well as state guidelines, in requiring the move.

But for all the complexity of contracts and the vigilance they require, the most crucial question is perhaps the most basic, according to Larry Minnix, the president of the aging services association. "you need to ask, "What happens if I run out of money?" What you want to hear them say is, "If you run out of money, you're still going to live here.'"

Some communities, particularly nonprofit life care communities like Whitney Court, have a charitable fund to support residents even if their money runs out.

"It's a tremendous sense of security to know that no matter what happens, you'll be taken care of," Mrs. LaCamera said, "and that you will not be a burden either financially or in the way of care, for your children."